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Message Text

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R 030921Z JUL 74
FM AMEMBASSY BONN
TO SECSTATE WASHDC 3585

C O N F I D E N T I A L SECTION 01 OF 02 BONN 10558

LIMDIS - GREENBACK

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS
TAGS: EFIN, GW
SUBJECT: VIEWS OF BUNDESBANK VICE PRESIDENT EMMINGER

1. SUMMARY: IN A CONVERSATION WITH THE FINANCIAL ATTACHE ON JULY 2, EMMINGER SAID THAT EC DISCUSSIONS ON GOLD ARE CONTINUING BUT THAT AN INTERVENTION SYSTEM IS NOT LIKELY TO BE AGREED UPON. THE BUNDES-BANK STRONGLY BELIEVES THAT BALANCE OF PAYMENTS ASSISTANCE TO ITALY SHOULD BE MADE AVAILABLE ONLY AGAINST A PLEDGE OF ITALIAN GOLD AND OPPOSES EC COMMISSION PLANS FOR THE FLOATATION OF A JOINTLY GUARANTEED LOAN ON THE EURO-MARKET AND FOR A COORDINATED EC FLOAT. END SUMMARY

2. REGARDING GOLD EMMINGER SAID THAT THE BUNDESBANK WELCOMED THE RECENT LOWERING OF THE FREE MARKET PRICE. WITHIN THE EC DISCUSSIONS WERE CONTINUING WHETHER TO SUPPLEMENT THE G-10 DECISIONS ALLOWING CENTRAL BANK GOLD TO BE PLEDGED AS SECURITY FOR LOANS WITH SOME FURTHER AGREEMENTS DESIGNED TO AVOID OVERLY ERRATIC PRICE MOVEMENTS ON THE FREE GOLD MARKET THROUGH CENTRAL BANK AGREEMENT TO TRY TO KEEP THE FREE GOLD PRICE
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IN A RANGE TO BE AGREED AND CHANGED FROM TIME TO TIME.

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EMMINGER SAID HE REALIZED THAT THE US, AND PARTICULARLY PAUL VOLCKER, HAD BEEN OPPOSED TO SUCH SCHEMES IN THE PAST. HE FELT, HOWEVER, THAT THE CURRENT EC DISCUSSIONS SHOULD NOT GIVE US TOO MUCH CONCERN. A DISTINCTION SHOULD BE MADE BETWEEN ACTIVE CENTRAL BANK INTERVENTION ON THE GOLD MARKET (I.E., BUYING GOLD TO MAINTAIN ITS PRICE) AND PASSIVE INTERVENTION (I.E., NOT SELLING GOLD IN A MANNER THAT WOULD CAUSE ERRATIC PRICE MOVEMENTS). EC AGREEMENT ON ACTIVE INTERVENTION WAS HIGHLY UNLIKELY BECAUSE VERY FEW EC CENTRAL BANKS HAD THE MEANS (I.E., SUFFICIENT FOREIGN EXCHANGE RESERVES) TO ENGAGE IN IT AND THOSE WHO DID, MAINLY THE BUNDESBANK, WERE OPPOSED. IN ADDITION THE PROBLEMS OF REACHING ANY AGREEMENT ON WHO WOULD HAVE TO INTERVENE WHEN IN ORDER TO MAINTAIN THE GOLD PRICE WERE SO COMPLICATED--AS HAD BEEN SHOWN BY THE EXPERIENCE OF THE OLD GOLD POOL--THAT AN AGREEMENT BEING REACHED WITHOUT US PARTICIPATION WAS EXTREMELY UNLIKELY. "PASSIVE INTERVENTION," ON THE OTHER HAND, WAS NOT THAT DANGEROUS AND IN ANY CASE COULD BE QUITE FLEXIBLE THROUGH FREQUENT CHANGES IN THE RANGE WITHIN WHICH CENTRAL BANKS SALES COULD TAKE PLACE.

3. EMMINGER SAID THAT IN CONNECTION WITH GOLD HE WANTED TO BRING UP ONE SMALL POINT. SOME GERMAN PERIODICALS, PARTICULARLY THE WIRTSCHAFTSWOCHE, HAD REPORTED THAT THE RECENT US/SAUDI ARABIAN AGREEMENT FOR INVESTMENTS IN US TREASURY BILLS CONTAINED A GOLD CLAUSE. HE KNEW THIS WAS NOT TRUE, BUT IF WE COULD FIND OCCASION TO MAKE THIS CLEAR IT WOULD BE HELPFUL SINCE THE SUPPOSED FACT WAS USED TO ARGUE THAT EVEN THE US HAD TO AGREE TO THIS "COME BACK" FOR GOLD.

4. REGARDING ITALY, EMMINGER SAID THAT CARLI'S VERY BELATED INCREASE OF ITALIAN INTEREST RATES SEEMED TO BE CAUSING SOME REFLOWS OF MONEY INTO ITALY AND GAVE A BREATHING SPACE. IT WAS CLEAR, HOWEVER, THAT BALANCE OF PAYMENTS ASSISTANCE WOULD UNDOUBTEDLY BE NEEDED IN THE FUTURE. EMMINGER SAID THE BUNDESBANK FELT VERY STRONGLY THAT SUCH ASSISTANCE
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SHOULD BE GIVEN ONLY BY WAY OF CREDITS AGAINST WHICH ITALY PLEDGED GOLD. ONLY IN THIS WAY COULD IT BE BROUGHT HOME TO THE ITALIAN GOVERNMENT AND PUBLIC THAT SUCH ASSISTANCE WAS NOT UNLIMITED AND COSTLESS. THE LOSS OF GOLD WOULD BE PSYCHOLOGICALLY IMPORTANT. EMMINGER EMPHASIZED THAT THE BUNDESBANK FELT VERY STRONGLY ON THIS POINT AND WONDERED WHAT THE US VIEWS WERE. FOR THE BUNDESBANK AN ITALIAN PLEDGE OF

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GOLD AS SECURITY WAS THE KEY POINT. ALL OTHER TERMS
OF SUCH A BALANCE OF PAYMENTS ASSISTANCE WERE

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 10558

LIMDIS - GREENBACK

SECONDARY. ARRANGEMENTS COULD BE INCLUDED THAT IF
DURING THE TERM OF THE LOAN THE FREE GOLD PRICE IN-
CREASED, ITALY WOULD SELL PLEDGED GOLD ON THE FREE
MARKET AND REDUCE THE LOAN WITH THE PROCEEDS.
AGREEMENTS COULD ALSO BE INCLUDED TO ALLOW ITALY TO
REPURCHASE THE GOLD IF AT A LATER POINT ITS BALANCE
OF PAYMENTS SITUATION ALLOWED THIS. IT WAS NOT THAT
THE BUNDESBANK WAS ANXIOUS TO ACQUIRE MORE GOLD,
BUT THE PLEDGE AND POSSIBLE LOSS OF GOLD BY ITALY
WAS IMPORTANT TO DRIVE HOME TO THE ITALIANS THE
LIMITS AND COST OF BALANCE OF PAYMENTS ASSISTANCE.

5. EMMINGER SEEMED RELATIVELY RELAXED AND OPTIMISTIC
ON RECYCLING. HE FELT THE FRENCH WILL HAVE NO
PROBLEM THIS YEAR AND THE UK ALSO SEEMED TO BE GETTING
BY. ARAB MONEY WAS BEGINNING TO GO INTO SOME LONGER-
TERM INVESTMENTS INCLUDING SOME SIZEABLE MEDIUM-TERM
LOANS TO UK INDUSTRIES (IN THE $500 MILLION RANGE
PER LOAN). EMMINGER SAID THAT THE BUNDESBANK WAS
STRONGLY OPPOSED TO THE EC COMMISSION PROPOSAL FOR AN
EC LOAN ON THE EURO-MARKET. A LOAN OF SUCH MAGNITUDE
WHICH EMMINGER SAID WOULD HAVE TO BE AT LEAST $1

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BILLION COULD NOT BE PLACED ON THE EURO-BOND MARKET AND IT WOULD BE UNSOUND TO TRY TO FINANCE MEDIUM-TERM BALANCE OF PAYMENTS ASSISTANCE TO ITALY THROUGH SHORT-TERM EURO-DOLLAR BORROWING. IN ANY CASE,
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GERMANY WOULD BE THE DE FACTO GUARANTOR OF SUCH A LOAN AND THE BUNDESBANK IN THIS CASE WOULD PREFER TO MAKE THE LOAN DIRECTLY AGAINST A PLEDGE OF ITALIAN GOLD. EMMINGER SPECULATED THAT THE EC COMMISSION WAS JUST TRYING TO GET ITSELF INTO THE ACT AND ONLY HOPED THAT THE GERMAN GOVERNMENT WOULD NOT AT SOME POINT COME TO FEEL THAT SOME "COMMUNITY" ACTION WAS POLITICALLY REQUIRED AND FOR THIS REASON FAVOR THE EC COMMISSION PROPOSAL.

6. EMMINGER SAID THAT HE FELT THAT THE EC COMMISSION IDEAS FOR COORDINATED EC FLOATING (THE SNAKE WITH A FLEXIBLE SKIN) WERE UNWORKABLE. WHILE THEY SEEMED BASED ON EARLIER VAGUE FRENCH IDEAS, HE DID NOT BELIEVE THAT THEFRENCH NOW FAVORED THEM. HE THOUGHT THAT GISCARD NOW WOULD WISH FIRST TO BRING HIS HOUSE IN ORDER AND THEN EVENTUALLY REJOIN THE SNAKE. EMMINGER SAID HE PERSONALLY HOPED THE FRENCH WOULD NOT REJOIN THE SNAKE DURING THE NEXT TWO YEARS. HILLENBRAND

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